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January 20, 1999

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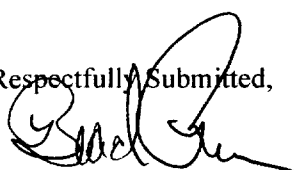
Ms. Magalie Roman Salas  
Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, S.W.  
Washington, D.C. 20554

RE: **Ex Parte Comments – Two Copies filed *In the Matter Deployment of Advanced Telecommunications Capability, CC Docket 98-147.***

Dear Ms. Salas:

Please include the attached documents in the record of this proceeding. The attachments were e-mailed to all of the FCC Commissioners offices and copies were sent to Larry Strickling and Lisa Zaina. In addition, on January 12, 13, and 14 of last week, I discussed generally the contents of both letters with Larry Strickling and Lisa Zaina

Respectfully Submitted,

  
James Bradford Ramsay  
NARUC's Assistant General Counsel

**National Association of  
Regulatory Utility  
Commissioners**

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January 13, 1999



**Jim Sullivan**  
*President*  
Alabama Public Service Commission

**Bob Rowe**  
*First Vice President*  
Montana Public Service Commission

**Nora Mead Brownell**  
*Second Vice President*  
Pennsylvania Public Utility Commission

**Margaret A. Welsh**  
*Executive Director*

Mr. Lawrence Strickling  
Chief, Common Carrier Bureau  
Federal Communications Commission  
1919 M Street, NW  
Washington, D.C. 20544

**RE: CLEC/IXC Industry January 8, 1999 Correspondence Concerning  
Implications of the FCC's Separate Subsidiary Proposal.**

Dear Mr. Strickling:

Earlier this week, I received a letter from representatives of AT&T, CompTel, MCI, and Qwest. The letter suggests that States and the FCC should explore consequences of FCC plan to deregulate advanced services provided through a separate subsidiary prior to any additional FCC action. Specifically, the letter warns that FCC separate subsidiary proposal could have detrimental effect on State policies, including "local pricing, the integrity of the local exchange network and the future of competitive choice." The letter also suggests the proposal may offer incentive to I-LECs to migrate the most valuable services, and investments, to the subsidiary. I have attached a copy of the letter for your review.

My response to the letter is also attached. In that response, I state that the request for additional dialogue is constructive. The questions raised about the effect of a separate subsidiary on incumbent LEC investment, and whether States have the resources needed to ensure continued service quality are potentially troubling and consistent with concerns raised by several States in the 706 proceeding. While these concerns are not necessarily fatal to the FCC's proposal, they do raise valid issues that should be addressed.

Because of my concern, and as a basis for further FCC-State discussions, I believe it would be productive for the States to understand the FCC's views on the issues raised by the January 8<sup>th</sup> letter. Accordingly, I would appreciate a detailed response, from the FCC's perspective, to the issues raised in the letter, including an enumeration of the steps the FCC envisions States will be required to take as a result of any order requiring separate subsidiaries.

Thanks again for your attention to this matter. As always, I look forward to continuing a productive discussion with the FCC, the Bell Operating Companies, Competitive Providers, and our members.

Sincerely,

Bob Rowe  
NARUC Telecommunications Committee Chairman

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cc: Chairman William Kennard  
Commissioner Susan Ness  
Commissioner Gloria Tristani  
Commissioner Michael Powell  
Commissioner Harold Furchtgott-Roth  
Ms. Kathy Brown, Chief of Staff, Office of the Chairman  
Ms. Lisa Zaina, Associate Bureau Chief, CCB  
Mr. Wayne Fontein, AT&T State Public Affairs Director  
Mr. Drake Tempest, Quest's Executive V.P. and General Counsel  
Ms. Genevieve Morelli, CompTel's Executive V.P. and General Counsel  
Mr. Jonathan B. Sallet, MCI-Worldcom's Chief Policy

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*BY FACSIMILE/E-MAIL*

**Mr. Wayne Fonteix**  
AT&T State Public Affairs Director

**Mr. Drake Tempest**  
Quest's Executive V.P. and General Counsel

**Ms. Genevieve Morelli**  
CompTel's Executive V.P. and General Counsel

**Mr. Jonathan B. Sallet**  
MCI-Worldcom's Chief Policy Counsel

**RE: Your January 8, 1999 Correspondence Concerning Implications of the FCC's Separate Subsidiary Proposal.**

Dear Mr. Fonteix, Mr. Tempest, Mr. Sallet and Ms. Morelli:

Thank you for your letter. Your request for further dialogue concerning the FCC's separate subsidiary proposal is constructive. You raise potentially troubling questions about the effect of a separate subsidiary on incumbent LEC investment, and whether States have the resources needed to ensure continued service quality.

NARUC's member States have taken various positions on the FCC's specific separate subsidiary proposal. However, the issues you raise are consistent with those raised by several States' comments in the Section 706 proceeding, including those filed by Indiana and Wisconsin. These concerns are not necessarily fatal to the FCC's proposal, but they do raise valid issues that should be clearly addressed.

A general question relevant to your letter is: "Does a particular approach align public policy incentives with the desired conduct, allowing less regulatory oversight, or does its success require new or additional forms of oversight?" If the latter, do these tools exist and are they adequate? Another specific concern raised is whether investment in an integrated, open, and robust public switched network is promoted by a specific proposal, or whether it is potentially harmed? If the latter, are adequate remedies available?

We intend to ask the FCC to provide a detailed response to the issues you raise, including an enumeration of the steps its expects States will be required to take. We will share both your letter and the FCC's response with NARUC's member commissions.

We look forward to continuing a productive discussion with the FCC, Congress, the Bell Operating Companies, Competitive Providers, and our members.

Thank you for your thoughtful letter.

Sincerely,

  
Bob Rowe

NARUC Telecommunications Committee Chairman

cc: **Chairman William Kennard**  
**Commissioner Susan Ness**  
**Commissioner Gloria Tristani**  
**Commissioner Michael Powell**  
**Commissioner Harold Furchtgott-Roth**

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